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Job Losses in July Add to Mixed Economic Signs

By DANIEL ALTMAN

The economy shed 44,000 jobs in July, the Labor Department reported yesterday, though the overall unemployment rate edged down.

The rate fell, to 6.2 percent from 6.4 percent in June, only because the number of people looking for jobs declined faster than the number of people holding them. People have been withdrawing from the labor market in greater numbers because of their poor prospects.

The latest data on job losses, which came a day after the Commerce Department's mildly encouraging report on economic growth last quarter, left economists wondering what to believe.

"One has to hope that the upturn in business confidence is going to be reflected in these numbers as well," said Robert V. DiClemente, chief United States economist at Citigroup. In the meantime, he said, "it's just been a persistent pattern of lingering weakness in the job market."

The economy grew at an average annual rate of 2.4 percent in the second quarter, and economists guessed that it might have accelerated to a pace of 4 percent by the end of June. Such a rate, if sustained, is considered strong enough to spur hiring. Yet in July, the jobs did not appear.

The lack of improvement in the labor market despite some economic progress has added fuel to the battle fires in Washington and has frustrated job seekers across the country. Since the most recent recession ended in November 2001, the nation's payrolls have shrunk by more than a million workers.

In a telephone interview yesterday, Elaine L. Chao, the secretary of labor, called the latest figures "confusing" and attributed the dwindling of the labor force to unusual seasonal factors. She said the tax credit checks recently mailed to families with children would help to stimulate demand; she also said she hoped Congress would approve $3,000 grants to help the long-term unemployed with training and relocation.

Democrats in Washington charged that the three waves of tax cuts advocated by the White House had done little to ensure that new jobs accompanied the economic recovery.

"This is the almost predictable consequence of a policy of tax cuts that have not strengthened the country but weakened it," said Senator Jack Reed of Rhode Island. "We sent checks out, but we neglected millions who have family and are struggling. If we're serious about getting the economy going, we've got to start targeting tax relief to middle- and low-income families who will go out and create demand."

The labor force thinned by 556,000 people last month, with the number of employed workers dipping by 260,000. These declines followed gains of comparable size in June. The unemployment rate dropped for almost every demographic group except whites for the second month in a row. Among whites, the rate remained at 5.5 percent, its highest level since April 1994.

Payrolls contracted for the sixth straight month. Along with the July decline, the Labor Department revised its June report to reflect a decrease of 72,000 jobs rather than 30,000. Jobs in the manufacturing of long-lasting goods like motorcycles and microwave ovens slipped by 54,000, according to the survey of payrolls, which provides more reliable estimates of employment month to month. Wholesale and retail trade combined lost about 29,000 positions.

Bucking the trend, real estate and lending added almost 10,000 jobs in July, in a likely reflection of low interest rates and home refinancing activity. But the largest gains — and perhaps a lone hopeful sign — came from temporary help, which picked up 41,000 people.

The uptick could imply that companies will soon consider hiring permanent workers, too, said Maria Fiorini Ramirez, who runs a research concern in New York that has been among the most accurate forecasters of the economy in the last three years. On the whole, though, Ms. Ramirez cautioned that the Labor Department's report was less positive than it appeared at first blush.

"The job numbers, especially the unemployment rate, really looks a lot better than what the reality is," she said. "There hasn't been job formation or the labor force growing because people have had a lot of trouble entering the labor force." College graduates have had a hard time finding their first jobs, she explained, and people whose unemployment benefits have run out may have stopped looking for jobs.

Tracking this group, called discouraged workers, can be difficult, because the Labor Department does not adjust the relevant statistics for seasonal changes. Instead, Ms. Ramirez said, she looks at other indicators: "If you look at it from the receipts line on state budgets, tax revenues are so much lower than expected. It's hard to capture it all with the employment numbers."

Mr. DiClemente took the opposite point of view, asserting that the figures might underestimate the strength of the labor market. He was especially suspicious of the slump in hours worked each week, which at an average of 33.6 in July were the lowest on record, and the widespread job losses in manufacturing.

"These large declines across the board in all these factory industries — it doesn't ring true," he said. "The fact that they're so uniformly depressed is what raises the flag. Maybe there's something here in the summertime seasonal patterns that eluded a good read."

He added that a positive reading in the Institute of Supply Management's index of manufacturing activity, also released yesterday, "does tend to cast doubt on the validity of the factory hours, because it confirms every other survey." Given Thursday's report from the Commerce Department, he estimated that the economy began the third quarter growing "at the very least at a 4 percent rate."

Expansion at that speed would probably be enough to create new jobs, given a population growing by 1 percent a year and productivity increasing by about 2 percent a year. At its meeting in two weeks, Mr. DiClemente concluded, the Federal Reserve Board might not take yesterday's employment numbers too seriously.